

The Library of Congress Office of the Inspector General



Office of the Chief Financial Officer

Disbursing Office Controls, While Strong Overall, Can be Improved

Audit Report No. 2007-PA-103 September 2008



UNITED STATES GOVERNMENT

LIBRARY OF CONGRESS

Memorandum

Office of the Inspector General

September 29, 2008

TO: James H. Billington

Librarian of Congress

FROM: Karl W. Schornagel

Inspector General

SUBJECT: Disbursing Office Controls, While Strong Overall, Can be Improved

Audit Report No. 2007-PA-103

This transmits our final report on our audit of the Disbursing Office. The Executive Summary begins on page *i*, and complete findings and recommendations appear on pages 7 to 19.

The Chief Financial Officer's response to our draft report is briefly summarized in the Executive Summary and in more detail after individual recommendations. The Chief Financial Officer's complete response is included as an appendix to the report.

Based on the written comments to the draft report, we consider all of the recommendations resolved. Please provide within 30 calendar days, an action plan addressing implementation of the recommendations, including implementation dates, in accordance with LCR 211-6, Section 11.A.

We appreciate the cooperation and courtesies extended by the Office of the Chief Financial Officer during this audit.

cc: Chief Operating Officer

Assistant Chief Operating Officer for Support Services

Chief Financial Officer

▶ TABLE OF CONTENTS

>>	Executive Summaryi						
>>	Introduction1						
>>	Objecti	ves, Scope, and Methodology	5				
>>	Findings and Recommendations						
	I.						
		for Approving Copyright Bank Deposits	7				
		Recommendation	8				
	II.	OCFO Should Improve Certain DO Controls	9				
		a. Depositing Cash Receipts	9				
		Recommendations					
		b.	10				
		Recommendations	12				
		c	12				
		Recommendations	13				
		d. Transmitting Data to the Federal Reserve Bank	14				
		Recommendation	15				
		e. Background Investigations for DO Personnel	15				
		Recommendation					
	III.	OCFO Should Improve Procedures for					
			16				
		Recommendations					
	IV.	The Library/OCFO Can Improve COOP Preparedness	17				
		Recommendations					
>>	Conclus	sion					
		dix A: Acronyms Used In This Report					
		dix B: Management Responses					

EXECUTIVE SUMMARY

Vital to the public's trust in the federal government is unquestionable integrity in the management of public funds. By law, the U.S. Department of Treasury receives and disburses funds for most federal agencies. However, some agencies, including the Library of Congress, have authority to handle funds for their own operating activities.

Library cash receipt and disbursement transactions are principally handled by the Disbursing Office (DO), a component of the Library's Office of the Chief Financial Officer (OCFO). The DO is considered a high risk operation because of the volume of funds it manages and the speed with which it processes transactions. Library management must employ a system of internal control that minimizes risk and ensures accurate and complete accountability for the source, use, and destination of all cash transactions.

This report provides the results of our audit of the Library's DO. Although we concluded that the design of, and compliance with, the DO's internal control system were generally good, we identified opportunities for improvement in four areas of DO operations. The following is a summary of our recommendations for those improvements.

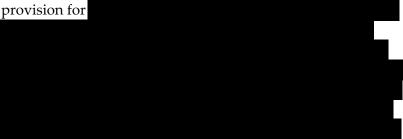
OCFO and Copyright Should Redesign Internal Controls for Approving Copyright Bank Deposits—We found the DO approved Copyright Office (Copyright) deposit transactions in Momentum without the ability to verify and validate them. This exposed the Library to the possibility that errors and irregularities could go undetected in the recording and reconciling of these deposits. We recommended that management revise the Momentum approval process for Copyright deposits to ensure that the approving official could verify and validate these transactions.

OCFO Should Improve Certain DO Controls—Our review of the DO operations found opportunities for speeding up the depositing of checks,

We found delays in the way several Library departments were forwarding check receipts to the DO and recommended



The Library/OCFO Can Improve COOP Preparedness—We reviewed the DO's Continuity of Operations Plan (COOP) for operating offsite in the event of an emergency. We found no



We also recommended enhancements for the COOP to ensure it could remain operational for 30 days if activated.

Management generally agreed with our findings and recommendations.

▶ Introduction

U. S. Government agencies have a responsibility to maintain the public's trust, especially when it comes to managing federal funds. An agency's handling of cash for complex federal operations demands nothing less than the accurate recording and safe processing of all transactions. Although the U.S. Department of Treasury receives and disburses the funds of most federal agencies, Congress has authorized many legislative and judicial branch agencies to process their own monetary transactions. All agencies that handle federal funds must have properly designed financial systems and procedures that effectively control the agencies' receipts and disbursements.

Library of Congress Monetary Operations

The Library of Congress is one of the agencies granted independent authority to receive and disburse funds. Various statutes provide the Library authority to receive and disburse funds for its own operations as well as those of the Congressional Budget Office and the Office of Compliance.¹ The Disbursing Office (DO) in the Library's Office of the Chief Financial Officer (OCFO) manages cash receipt and disbursement transactions for these organizations.

Seven operating areas of the Library work in coordination with the DO to receive funds and prepare deposits. These operating areas include Cataloging Distribution Services; Photo-duplication Services; the Motion Picture, Broadcasting, and Recorded Sound Division; Retail Sales; Anglo-American Acquisitions Division; the Copyright Office (copyright registration operations); and the Copyright Licensing Division (royalty fees). Those designated as high volume² record details of the funds they receive in the Momentum Financial System (Momentum), the Library's automated financial management system. Subsequently, those operating areas seal and forward their funds to the DO for deposit. Low volume³ designated receipt locations prepare a deposit schedule and

¹ 2 USC §§ 142a-142l, 17 USC § 111d-2, and 20 USC § 2143.

² Cataloging Distribution Services, Photo-duplication Services, Retail Sales, both copyright functions.

³ Motion Picture, Broadcasting, and Recorded Sound Division; and the Anglo-American Acquisitions Division.

forward the schedule and receipts to the DO for recording in Momentum and depositing. The Library's other operating areas separately forward their receipts, including donations, to the DO which records the corresponding Momentum entries and includes the funds in the DO's daily deposit.

Although authorized to receive and disburse federal funds for its operations, the Library is required to coordinate its receipt and disbursement activity with the Treasury Department. Among other things, the Library obtains its appropriation funding through the Department and all of the Library's checks and electronic payments are drawn against Treasury accounts.

Operational Risks and Internal Control

The Library had gross disbursements of over one billion dollars during FY 2007. Excluding payroll, the DO disbursed most of these funds through almost 27,300 Automated Clearing House (ACH) transfers and over 3,800 checks.

Handling such large sums of money and processing such a high number of transactions exposes business organizations such as the DO to high risks of fraud and accounting errors. Management can mitigate those risks by implementing a carefully designed system of internal control. A well designed DO internal control system ensures that disbursements are legal, proper, and correct; and are accurately recorded, reported, and reconciled in a timely and efficient manner. The Library strives to achieve these objectives by utilizing Momentum. This enterprise-wide financial management system includes the checks and balances needed to effectively control disbursements and provides audit trails to document all transactions from beginning to end.

Physical and Personnel Controls

Library management reduces its exposure to risk by complementing Momentum's control system with physical security and personnel-related controls. During the audit we evaluated the DO's physical security and personnel internal controls. The DO is protected with a modern alarm system

⁴ Financial Management Service/United States Department of the Treasury, Treasury Financial Manual, March 2008, Part 4-Chapter 2020.10.

and DO personnel conduct their operations in a continually locked and controlled environment. Additionally, DO operating procedures require the logging of entries and exits to the office and only a professional armored truck service may pick up and transport deposits.

Moreover, the Library considers all DO positions to be "public trust" positions because the incumbents have access to and control of financial records.⁵ Additionally, the Disbursing Officer and Assistant Disbursing Officer positions are considered to be high risk positions in view of their levels of responsibility.⁶ Accordingly, DO personnel are subject to various background investigation requirements depending on the responsibility levels of the positions.⁷

Continuity of Operations Planning

Since the DO is a vital component of the Library's business operations, management must assure that it has thoughtfully designed and periodically practiced its plans for continuing operations in the event of a business interruption on Capitol Hill. A continuity of operations plan (COOP) establishes policy and guidance for ensuring that mission-essential functions can continue off-site if necessary.

⁵ Library of Congress Regulation (LCR) 2024-2, *Position Sensitivity Designations*, 8/6/02, §4B defines "public trust" positions as "...those that have the potential for action or inaction by their incumbents to affect the integrity, efficiency, and effectiveness of assigned activities. This includes positions involving...access to or operation or control of unclassified sensitive or financial records, with a relatively high risk for causing damage or realizing personal gain."

⁶ <u>Ibid</u> "...[P]ublic trust positions shall be designated either "high" or "moderate," depending on the degree of potentially adverse impact on public confidence and the efficiency of the service."

⁷ LCR 2024-3, *Investigative Requirements and Case Processing*, 8/6/02, §§ 4, 5B-C-"...incumbents of positions designated public trust that entail specific security concerns may also be the subject of reinvestigation for the purpose of determining ongoing employment suitability...Investigation for appointment to high risk public trust positions must be completed and favorably adjudicated prior to appointment...At a minimum, pre-appointment checks shall consist of a personnel security interview of the applicant, an interview with a supervisory source, a credit check, and national agency checks...Investigation for appointment to moderate risk positions may be completed post appointment...Retention is subject to the favorable completion of the required investigation."

Guidance issued by the Federal Emergency Management Agency to assist federal agencies in developing COOPs is provided in Federal Preparedness Circular No. 65 (FPC 65). According to FPC 65, a COOP must be capable of implementation with or without warning, and its procedures must address regularly scheduled testing, training, and exercising of personnel, systems, equipment, processes, and procedures.

FPC 65 also calls for alternate facilities where critical agency functions can be performed if a COOP must be implemented. Alternate facilities must:

- be capable of operations within 12 hours of a COOP's activation and sustained normal business activities for up to 30 days;
- be located in areas where power, telecommunications, and internet grids are distinct from those of the function's primary location; and
- provide reliable logistical support, services, and infrastructure systems including water, electrical power, heating and air conditioning, etc.

The COOP developed and documented by OCFO for the DO identifies the essential personnel, the alternate operating facility, the required working space, the vital equipment, telecommunications, and security apparatus, and the necessary supplies for operating off-site under emergency conditions.

▶ OBJECTIVES, SCOPE, AND METHODOLOGY

Our principal objectives were to evaluate the design and overall effectiveness of the office's systems of internal control. The scope of our audit included:

- the accuracy and timeliness of accounting for cash receipts and disbursements,
- the adequacy of physical security for the office and related operational activities,
- the adequacy of policies and procedures for protecting assets, including those in place to prevent and detect fraud,
- the quality of and compliance with the office's COOP,
- compliance with applicable information technology security requirements,
- compliance with personnel screening requirements, and
- the accuracy and reliability of Treasury reporting for the DO's transactions.

Our audit included an evaluation of the DO's compliance with applicable laws and regulations, including Library of Congress Regulation (LCR) 1530, Cash Management, directives related to the LCR, and the Treasury Financial Manual issued by the U.S. Department of the Treasury. We used appropriate sampling techniques to evaluate the effectiveness of internal controls for receiving and disbursing funds and in our tests of

⁸ We conducted statistical sampling tests of attributes for cash receipts for the periods July 2006 (FY 2006) and November 1, 2006-February 15, 2007 (FY2007). During those periods we separately tested receipts processed by the DO and receipts processed by Designated Receipt Locations. The parameters for the tests were precision 5%, sample reliability 95%, and tolerable error rate 1%. We used random number tables to select our samples. The sampling method and parameters allowed us to project the sample results to the related populations.

Receipts Processed							
	Disbursi	ng Office	Designated Receipt Locations				
	2006	2007	2006	2007			
Population	119	579	313	946			
Sample	65	97	89	101			

During our audit, the former Assistant Disbursing Officer was selected to fill the Disbursing Officer position and OCFO reorganized and streamlined the DO's functions. As part of the reorganization, the DO's staffing level was reduced and investment management and Treasury reporting were removed from the office's responsibilities. Notwithstanding these changes, the DO retained receipt and disbursement processing as its primary function. Our testing of transactions from fiscal years 2006 and 2007 allowed us to monitor the effects of the reorganization and the recent Disbursing Officer appointment on the application of the DO's internal controls.

We performed work for this audit from December 2006 through March 2008. Our work was interrupted intermittently to address other high priority projects.

We conducted the audit in accordance with generally accepted government auditing standards and LCR 211-6, Functions, Authority, and Responsibility of the Inspector General. Such criteria requires that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on established audit objectives. We believe that the evidence we obtained for the audit appropriately addressed our objectives and provided a reasonable basis for our findings and conclusions.

For cash disbursements we conducted statistical sampling tests of attributes for the periods July 2006 (FY 2006) and December 2006 (FY 2007) of check and ACH payments recorded in Momentum. The parameters for the tests were precision 5%, sample reliability 95%, and tolerable error rate 1%. We used random number tables to select our samples. The sampling method and parameters allowed us to project the sample results to the related populations.

Check & ACH Payments						
	Jul 2006	Dec 2006				
Population	2,747	2,288				
Sample	107	107				

For rejected vendor payments we conducted judgmental sampling tests of attributes for the periods July 2006 (FY 2006) and November 1, 2006-February 15, 2007 (FY 2007). Judgmental sampling was employed because the populations were too small to obtain economies from using statistical sampling. Judgmental sampling does not provide the ability to project sample results to the related population. We employed a systematic method to select our samples.

Rejected Vendor Payments					
	Jul 2006	Nov 06-Feb 07			
Population	24	56			
Sample	5	5			

>> FINDINGS AND RECOMMENDATIONS

The design of the system of internal controls for the DO's financial activities was generally good. Moreover, compliance with those controls was generally adequate and has not been affected by recent changes in the DO. The new Disbursing Officer has retained continuity in both operational knowledge and staff capabilities, and has had positive interaction with all Library organizations that the DO supports.

Notwithstanding these generally positive conclusions, there are some areas in which OCFO and Library management could improve the design of and compliance with internal controls for the DO's activities, including:

- receipt and disbursement processing,
- and
- contingency planning.

The following comments provide assessments of significant issues we identified during this audit and our recommendations to improve the DO's performance.

I. OCFO and Copyright Should Redesign Internal Controls for Approving Copyright Bank Deposits

Among other things, professional standards require an organization to design internal controls to assure the reliability of financial reporting, safeguard assets, support the effectiveness and efficiency of operations, and promote compliance with applicable laws and regulations. Additionally, U.S. Government Accountability Office (GAO) standards call for control activities, including approvals, to ensure the proper execution, accuracy, and timely recording of transactions. 10

Notwithstanding these standards, a control involving bank deposits and other debit voucher activity processed in Momentum for the Copyright Office (Copyright) was not properly designed and was not ensuring that affected transactions were accurately recorded. At the time of our

⁹ AICPA Professional Standards, June I, 2006, Sec. AU 319.06-07.

¹⁰ US Government Accountability Office, *Standards for Internal Control in the Federal Government*, November 1999, P 12.

audit, Copyright was posting certain cash receipts, returned check vouchers, and other adjustment documents in Momentum. Subsequently, the DO was approving the same transactions in Momentum – without, however, any direct knowledge of, or involvement in, the transactions themselves. In particular, the DO was approving in Momentum corrections that the bank was making to the same transactions – once more, without direct knowledge or involvement in the transaction. Effectively, the DO approval was nothing more than a blind rubber stamp: errors, incomplete entries, or other irregularities that might have existed in Copyright's postings in Momentum would not likely be detected.

The internal control procedure regarding Copyright bank deposit should be promptly redesigned. In our view, there is no need for the DO to be involved in this procedure. Copyright certifies and reports its own collections to and reconciles its own differences with the Treasury Department using respectively the Statement of Transactions (SF-1219/20) and Deposit Differences (TFS 6652) reporting mechanisms. Moreover, Copyright has access to details in CASHLINK (the Treasury's online cash reporting system) to verify the accuracy and completeness of all Copyright deposit account activity.

Therefore, we believe that a Copyright official at an appropriate level should be designated to approve transactions in Momentum regarding Copyright deposits. The designated official should be independent of Copyright's deposit activity, informed about the deposit process, and have the capability through CASHLINK to verify the accuracy and completeness of the office's deposit account activity.

Recommendation

We recommend that the Chief Financial Officer (CFO), in concert with Copyright management, redesign the Momentum workflow process for Copyright deposit account activity. A Copyright official should be designated to approve Copyright deposit transactions in Momentum. The official should be independent of Copyright's deposit activity, informed about the deposit process, and have the capability through CASHLINK to verify the accuracy and completeness of the office's deposit account activity.

Management's Response

Management agreed with our finding and recommendation.

II. OCFO Should Improve Certain DO Controls

a. Depositing Cash Receipts

Although the Treasury Department requires federal agencies to deposit their cash receipts within five business days, a time limit for depositing receipts is not clearly specified in Financial Services Directive (FSD) 05-02, the Library's directive on deposit procedures.

Tests we performed on cash receipt activity for the Library's Undesignated Receipt Locations (URLs) (i.e., organizations that forward their receipts to the DO for processing and depositing) showed that time delays incurred in depositing the funds were sizeable during July 2006. However, the delay time for the URLs was significantly improved for the period November 1, 2006 through February 15, 2007. In July 2006, it took the Library an average of eight business days to deposit its receipts, and approximately18% of the deposits were made beyond the Treasury Department's five business day-limit. In contrast, it took the Library an average of three business days to deposit its receipts during the November 2006 - February 2007 period and only 9% of the deposits were beyond the Treasury Department's time limit.

In many cases, the URLs are not promptly forwarding their cash receipts to the DO for immediate deposit. In other cases, the DO is not promptly depositing its own receipts. Worst case examples during FY 2007 included two DO receipts which respectively took 82 and 28 days; a receipt by the Development Office which took 20 days; and two receipts by Library Services' Music Division which respectively took 11 and 12 days. Worst case examples during FY 2006 included three receipts by Work Life Services which respectively took 102, 82, and 48 days; and two DO receipts which took 53 days each.

We discussed these delays with DO management and learned that it does not deposit a receipt until the receipt's purpose and source are accurately determined. Accordingly, excessive delays can occur.

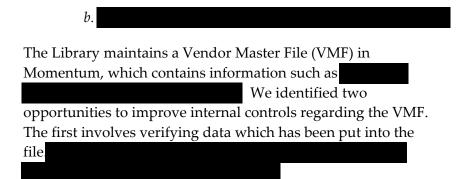
OCFO should take steps to prevent delays by URLs and the DO in processing and depositing cash receipts. Such delays increase the Library's processing float and adversely affect availability of the Treasury Department's funds. Moreover, opportunities to lose or misuse funds from a URL cash receipt increase as the period grows between the times of cash receipt and its subsequent deposit.

Recommendations

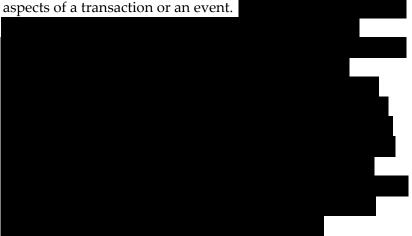
- The CFO should specify and enforce a time period for processing and depositing the Library's cash receipts with a revision to Financial Services Directive 05-02.
 The specified time period should be consistent with requirements in the Treasury Department's Treasury Financial Manual.
- 2. The CFO should specify procedures which result in the prompt deposit of all cash receipts, including those receipts whose purpose and source are not readily recognizable. The procedures specified should include posting these funds to a holding account until the DO identifies them. The procedures should also include provisions for handling any receipts which are ultimately deemed unidentifiable.

Management Response

Management generally agrees with our findings and recommendations but notes that due to recent Treasury guidance, they are reluctant to use suspense accounts except as a last resort.



A fundamental principle of internal controls is segregation of duties to ensure that no one individual has control of all key



A second opportunity to improve internal controls regarding the VMF involves a quarterly-performed procedure for verifying the accuracy of changes and additions to the file. Currently, AO selects a statistical sample of all changes to the Momentum VMF to determine whether the changes are accurate. AO's testing includes comparing the sample record to the hardcopy of the LOC Vendor Information Request document (i.e., Vendor Survey form) on file in AO or the Contracts Office. AO corrects all errors it identifies in the sample of VMF records by establishing a new VMF record. If a Vendor Survey form cannot be located for a VMF record in the sample, AO obtains a new form from the vendor to perform its testing procedure.

This internal control procedure is incomplete because AO has not defined an unacceptable error rate for its VMF statistical sampling and the actions that are required when an unacceptable error rate occurs. If the error rate that emerges through the sample of VMF records is high, this may indicate that a high rate of errors also exists among the VMF records outside the sample. Notwithstanding this principle, AO is only correcting errors that exist in the sample of VMF records and is taking no actions affecting the universe of changes and additions made to VMF records that are outside the sample. As a result, the DO is obtaining limited benefit from this internal control procedure and the number of rejected vendor payments due to faulty vendor information is not being controlled to the extent that it could.

As we note in finding III below, we found a high number (192) of rejected vendor payments in Momentum dating back over two years. We believe this is evidence of the need to enhance internal controls directed at reducing errors in the VMF.

Recommendations

We recommend that:



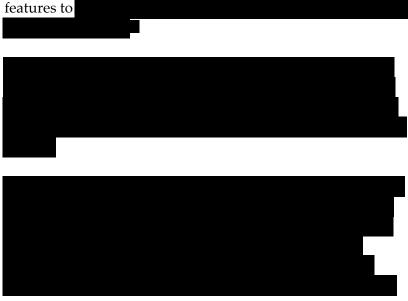
2. AO management define acceptable and unacceptable statistical sampling rates for errors that AO identifies in changes to Momentum VMF records and the actions required when an unacceptable error rate is found.

Management Response

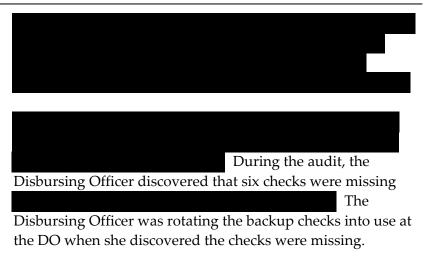
Management agreed with our findings and recommendations.

c.

The Treasury Department requires that machines printing facsimile signatures on checks should have mechanical



¹¹ Financial Management Service/United States Department of the Treasury, Treasury Financial Manual, March 2008, Vol. 1, Part 4-Chapter 5035.20 b.



A subsequent investigation by the Office of the Inspector General (OIG) and the Disbursing Officer determined that none of the missing checks were presented for payment through the Treasury and a stop payment order was issued for those checks. Although the checks were not located, the investigation identified weaknesses in receiving procedures at the facility that could have resulted in the removal of the checks. In a meeting with OIG, the CFO agreed to make changes in the delivery and receiving procedures for Treasury checks that ensure DO staff directly receive the new checks.

Recommendations

We recommend that DO management:



Confirm with OIG that procedures for direct receiving of new Treasury checks by the DO have been implemented.

Management Response

Management agreed with our findings and recommendations.

d. Transmitting Data to the Federal Reserve Bank

GAO recommends installing controls at an application's interfaces with other systems to ensure that all inputs are received and valid and that outputs are correct and properly distributed.¹²



¹² US Government Accountability Office, Standards for Internal Control in the Federal Government, November 1999, P 17.

Recommendation



Management Response

Management agreed with our finding and recommendation.

e. Background Investigations for DO Personnel

As previously indicated, we determined that the Library considers all DO positions to be "public trust" positions because the incumbents have access to and control over financial records. Additionally, the Disbursing Officer and Assistant Disbursing Officer positions are considered to be high risk positions in view of their levels of responsibility. Accordingly, DO personnel are subject to various background investigation requirements depending on the responsibility levels of their position.

We reviewed the personnel files of DO employees to determine whether the required background investigations had been conducted and documented. Our review found that most DO employees were background checked. However, we were not able to confirm that required background investigations were conducted for the Disbursing Officer and one other member of the DO staff.

Recommendation

We recommend that the CFO immediately determine whether background investigations were conducted for the Disbursing Officer and the other DO staff member and promptly make arrangements to have the investigations performed if they have not been done.

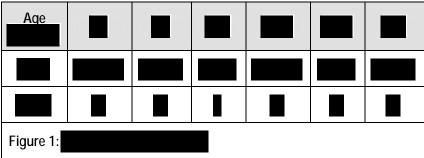
Management Response

Management agreed with our finding and recommendation. It determined that the background checks were conducted and will follow up to ensure they are filed in the employees' personnel files.

III. OCFO Should Improve Procedures for Resolving

The Treasury Department's Treasury Financial Manual requires federal agencies to initiate action to void check and ACH payments that are older than one year.







Recommendations



2. payments to expedite their resolution.

Management Response

Management agreed with our findings and recommendations.

IV. The Library/OCFO Can Improve COOP Preparedness

As part of our audit, we determined that the COOP for the DO is adequately designed and generally addresses the principal elements called for by FPC-65. Moreover, the DO's alternate facility provides the work space called for by the plan and is outfitted with the equipment and supplies which had been specified. We also confirmed that the

were thoroughly familiar with the COOP and the DO's alternate site.

Notwithstanding our generally positive conclusions, implementation of the COOP at the DO's alternate facility



We discussed this issue with the Chief Operating Officer. In the discussion, she noted that addressing the absence of is beyond OCFO's capabilities and that the Library would need a special funding authorization from Congress to resolve the issue in view of the significant cost that would be involved. We agree with the Chief Operating Officer and believe that the Library should seek the funding necessary to address this major contingency problem.

We also noted some additional, lower priority issues in our review of the COOP, namely:

- The only DO staff member provided a key to the facility was the
- There was no provision for an alternate official to in the absence of the during COOP activation;
- There was no cash operating fund or postage stored at the locked backup site;
- The supply of checks, and floppy discs at the facility appeared inadequate to support 30 days of operations; and
- The emergency telephone list was incomplete.

The DO staff will be under stress operating offsite and management's attention to these issues will improve the opportunity for more efficient DO operations under difficult circumstances. In the absence of the no one could enter the locked DO and the DO could not issue checks without signatures. The absence of a cash fund and postage will delay the start up of offsite functions and the limited supplies of checks and discs will require replenishing stocks under uncertain procurement conditions.

Recommendations

- 1. We recommend that senior Library management seek the funding necessary to ensure
- 2. We recommend that the Chief Financial Officer:
 - Designate a DO staff member to serve as a key holder for the alternate DO facility
 and give the staff member a key to enter and secure that site;
 - Designate authority for an alternate DO staff member to sign absence during COOP activation;

- Ensure that a supply of postage, cash, checks, and floppy discs are securely maintained at the alternate facility to adequately support business operations for 30 days; and
- Ensure that the emergency telephone list includes key Library organizations' telephone numbers at their alternate facilities, including Information Technology Services and Integrated Support Services.

Management Response

Management generally agreed with our findings and recommendations.

CONCLUSION

The DO is a particularly important element of the Library's infrastructure, and execution of its operations in a reliable and efficient manner is critical to the service that the Library provides to its customers and business partners. When the office operates reliably and efficiently, its operations are generally invisible to the people and organizations benefiting from its services. However, breakdowns in the DO have the potential to impede the Library's mission and damage its public image.

Congress has significantly invested in the Library's infrastructure as evidenced by funding for multi-million dollar systems such as Momentum. To achieve maximum returns, Library management must complement these investments with well-designed systems of internal control and nimble operations for transacting the Library's business.

Our audit indicates that OCFO's design and operation of the DO generally addresses the risks and vulnerabilities commonly associated with major cash disbursement and receiving operations. Management will never have full assurance that errors or irregularities will not occur in the DO. However, a well-designed system of internal control along with continuous management vigilance minimizes the risks of such a highly active and sensitive operation. We believe the recommendations provided in this report will assist Library management in its continuing efforts to address DO risks and to assure that internal controls balance the needs of operating speed and funds protection.

Major Contributors to This Report:

Nicholas Christopher, Assistant Inspector General for Audits John Mech, Senior Auditor Peter TerVeer, Management Analyst Michael Peters, Management Analyst

▶ APPENDIX A: ACRONYMS USED IN THIS REPORT

ACH Automated Clearing House

AO Accounting Operations

CASHLINK The Treasury's online cash reporting system

CFO Chief Financial Officer

COOP Continuity of Operations Plan

Copyright Copyright Office

DO Disbursing Office

FPC 65 Federal Preparedness Circular No. 65

FRB Federal Reserve Bank

FRO Financial Reporting Officer

FSD Financial Services Directive

GAO U.S. Government Accountability Office

LCR Library of Congress Regulation

Momentum Momentum Financial System

OCFO Office of the Chief Financial Officer

OIG Office of the Inspector General

URL Undesignated Receipt Locations

VMF Vendor Master File

▶ APPENDIX B: MANAGEMENT RESPONSES

UNITED STATES GOVERNMENT

MEMORANDUM

Library of CongressOffice of the Chief Financial Officer

September 23, 2008

TO: Karl Schornagel, Inspector General

FROM: Jeff Page, Chief Einancial Officer

SUBJECT: Draft Audit Report No. 2007-PA-103

Thank you for sharing your draft audit report regarding the Disbursing Office in the Office of the Chief Financial Officer. We appreciate the opportunity to review your comments and suggestions, which, in general, we find to be acceptable. Below is a response to each of your findings, as outlined in Draft Audit Report No. 2007-PA-103.

I. OCFO and Copyright Should Redesign Internal Controls for Approving Copyright Bank Deposits:

OCFO and Copyright acknowledge the internal controls shortfalls that occurred as OIG was conducting its audit. OCFO and Copyright immediately addressed this issue and implemented a new system of approvals in Momentum. Copyright Registration and Copyright Licensing now approve their own collections in Momentum. The Disbursing Officer only approves collections that require pickup by Dunbar.

II. OCFO Should Improve Certain DO Controls, a. Depositing Cash Receipts; b.

for DO

Personnel.

a. OCFO agrees that FSD 05-02 does require some editing in order to make time periods for processing and depositing receipts more specific. We are currently working on edits to this directive. While OCFO agrees in theory with the concept of a "holding account", in reality, this solution is impracticable. Treasury is eliminating suspense accounts for all federal agencies. Although OCFO has received a waiver to be exempt from the elimination of suspense accounts for the Library, this is only temporary and a stopgap to some other long-term solution. Additionally, using the suspense account as a normal collection business practice would be contrary to Treasury's expectation in allowing their use. Treasury has

instructed the Library to develop a plan to classify transactions upon receipt. Use of the suspense account should be the last resort.

b. This recommendation is one that is specific to the Accounting Operations Office. When this recommendation was first mentioned to OCFO, we addressed it immediately. Entering vendor data into Momentum is now a two-step process—an Accounting Technician enters the vendor data, and then only two other staff are able to approve the record.

DO will be receiving checks is sometime

By that time, DO will have established procedures for direct receipt of Treasury checks and will confirm process with OIG.

d.

FRB system). OCFo will re-address this issue and work with CGI-AMS, the Library's IT Support Office,, and the Federal Reserve to identify any new technological capabilities we may now have at our disposal.

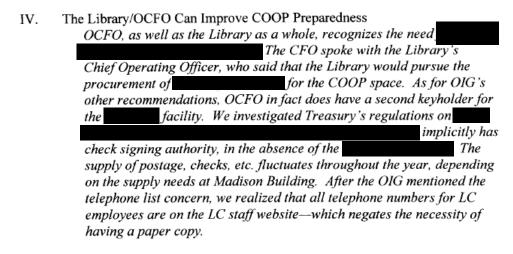
e. OCFO followed up on OIG's finding that background investigations had not been done in April of 2008. In fact, the Office of Personnel Security confirmed several months ago that it had conducted and completed a formal background investigation

which was supplemented by LC internal checks in January of 2005 when she moved into a public trust position.

III. OCFO Should Improve Procedures for Resolving

There seems to be some confusion in the understanding of a CX document. CX documents are disbursing documents used to cancel a payment. They are not the erroneous documents themselves, nor can the Disbursing Office generate a replacement payment from the CX document. OCFO concurs with OIG's recommendation regarding undisbursed payments. One of OCFO's staff members was assigned to review and clear the undisbursed table in Momentum. This task had not been monitored closely during 2007, and therefore OCFO did not realize it wasn't being done properly. OCFO's directive 07-07 covers procedures for canceled checks from the Limited Payability Act. This directive should be expanded in scope to cover procedures for all canceled payments (check and EFT). The Limited Payability procedures are similar to the more recent check/EFT cancellations.

It should be noted that in February 2008, during a review of aged accounts payable, AOO and FRO conducted an exhaustive review of the undisbursed table to include advising deposit and revolving fund managers to transfer undeliverable refunds to the general fund of the Treasury under TFM Chapter 3000 Section 3015. In March 2008, OCFO transferred approximately \$200K of undeliverable FEDLINK refunds to Treasury general fund. Other offices have been actively resolving aged items on the undisbursed table over the last couple of months.



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